

**VERMONT ENERGY EFFICIENCY
UTILITY FUND
INDEPENDENT AUDITORS' REPORT
For the Years Ended
December 31, 2008 and 2007**

**G.W. Osterman & Co, P.C.
192 S. Main Street, PO Box 793
Barre, Vermont 05641
(802) 479-3667**

**VERMONT ENERGY EFFICIENCY
UTILITY FUND
INDEPENDENT AUDITORS' REPORT**

**For the Years Ended
December 31, 2008 and 2007**

**G.W. Osterman & Co, P.C.
192 S. Main Street, PO Box 793
Barre, Vermont 05641
(802) 479-3667**

A member of the American Institute and Vermont Society of CPAs.

VERMONT ENERGY EFFICIENCY
UTILITY FUND

Financial Statements With
Independent Auditors' Report for the Years Ended
December 31, 2008 and 2007

CONTENTS

	Page Number
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AUDITS OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	3
STATEMENTS OF NET ASSETS	4
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS	5
STATEMENTS OF CASH FLOWS	6
NOTES TO THE FINANCIAL STATEMENTS	7 - 12

G.W. Osterman & Co, PC

192 S. Main Street, PO Box 793
Barre, Vermont 05641

Gerald W. Osterman, CPA Tel. 479-3667
Debra U. Burke, CPA Tel. 476-9698

gwosterman@charter.net
duburke@charter.net

Independent Auditors' Report

Vermont Public Service Board
Montpelier, Vermont

We have audited the accompanying statement of financial position of the Vermont Energy Efficiency Utility Fund (VEEUF), a special reserve fund of the State of Vermont administered by Batchelder Associates, PC as of December 31, 2008 and 2007, and the related statements of revenues, expenditures and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the VEEUF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the VEEUF as of December 31, 2008 and 2007, and the changes in fund net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2009 on our consideration VEEUF'S internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis on page 2 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As discussed in Note 1, the financial statements present only the VEEUF and do not purport to, and do not, present fairly the financial position of the State of Vermont as of December 31, 2008 and 2007, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

G. W. Osterman & Co, PC

September 1, 2009
Barre, Vermont

Vermont License No. 92-0000338

VERMONT ENERGY EFFICIENCY UTILITY FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDING DECEMBER 31, 2008

This section of the Vermont Energy Efficiency Utility Fund's annual financial report represents our discussion and analysis of the VEEUF's financial performance during the fiscal year that ended on December 31, 2008. It should be read in conjunction with the VEEUF's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The VEEUF unrestricted net assets as of December 31, 2008, were \$3,018,895 versus \$7,451,586 at December 31, 2007
- The VEEUF's net asset balance decreased by \$3,840,000 during 2008. This decrease was expected as program expenses increased to expend net assets that had built-up from previous years. Net assets increased by \$1,877,283 during the 2007 fiscal year as a result of fund expenditures exceeding fund receipts from electric distribution utilities during the year.
- VEEUF actual expenditures for 2008 were 8.5% above budgeted levels due to a higher than anticipated level of programmatic support requests during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis and the basic financial statements. The basic financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data.

Total disbursements to the eight programs comprising the VEEUF increased by approximately 68% from the prior year, from \$18,783,373 in 2007 to \$31,599,326 in 2008. As of December 31, 2008, the VEEUF had net payables of \$1,564,107 consisting primarily of receivables from contributors of \$5,683,587, payable to programs of \$4,385,438, payable to contributors for uncollectibles of \$53,591, accounts payable and accrued expenses of \$2,571,908 and taxes payable of \$236,757. This compares to a net receivables of \$158,321 as of December 31, 2007, which consisted primarily of receivables from contributors of \$4,094,452, payable to programs of \$2,257,537, payable to contributors for uncollectibles of \$124,499, accounts payable and accrued expenses of \$1,400,020 and taxes payable of \$154,075.

As was the case in prior years, the VEEUF maintained an adequate cash flow and balance of funds to satisfy all obligations.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

In 2006, ISO New England established a Forward Capacity Market (FCM) that will pay suppliers to ensure sufficient capacity is available to meet future peak loads, with the value of such payments determined by auction. This market is unique in that it allows energy efficiency, distributed generation, and other demand resources to compete directly with generators of electricity. On December 14, 2006, The VT Public Service Board issued an Order authorizing the EEU to participate in ISO-New England's Forward Capacity Market. Both Vermont Energy Investment Corporation (VEIC) and Burlington Electric Department (BED) are participating in the FCM's Transition Period that extends from year 2007 until June 2010. BED and VEIC expect joint revenues from their FCM participation to be approximately \$2,140,000 in year 2009.

The Vermont Public Service Board has passed the Vermont Energy Efficiency Fund Budgets for 2009, 2010 and 2011. The 2009 budget is level-funded, the 2010 budget is 15% over the 2009 budget, and the 2011 budget is 15% over the 2010 budget.

Legislation passed in June 2009 directed that 50% of the Regional Greenhouse Gas Initiative (RGGI) auction revenue, net of administrative costs, be deposited into the VEEUF to be used for funding fossil fuel efficiency services. The 2009 RGGI revenue expected to be paid into the VEEUF is estimated to equal \$1,000,000 but will vary depending upon final September and December 2009 auction results. Beginning in 2010, all of the RGGI funds, net of administrative costs, will be paid into the VEEUF.

G.W. Osterman & Co, PC

192 S. Main Street, PO Box 793
Barre, Vermont 05641

Gerald W. Osterman, CPA Tel. 479-3667
Debra U. Burke, CPA Tel. 476-9698

gwosterman@charter.net
duburke@charter.net

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on Audits of Financial Statements Performed in Accordance with *Government Auditing Standards*

To: Vermont Public Service Board
Montpelier, Vermont

We have audited the financial statements of the Vermont Energy Efficiency Utility Fund as of and for the year ended December 31, 2008 and 2007, and have issued our report thereon dated September 1, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Vermont Energy Efficiency Utility Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Vermont Energy Efficiency Utility Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Vermont Energy Efficiency Utility Fund's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Vermont Energy Efficiency Utility Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Vermont Energy Efficiency Utility Fund's financial statements that is more than inconsequential will not be prevented or detected by the Vermont Energy Efficiency Utility Fund's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Vermont Energy Efficiency Utility Fund's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Vermont Energy Efficiency Utility Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Vermont Energy Efficiency Utility Fund in a separate letter dated September 1, 2009.

This report is intended solely for the information and use of the Fiscal Agent, Contract Administrator, Vermont Public Service Board, and the State Auditor's Office of the State of Vermont and is not intended to be and should not be used by anyone other than these specified parties.

G. W. Osterman & Co, PC

September 1, 2009
Barre, Vermont

Vermont License No. 92-0000338

VERMONT ENERGY EFFICIENCY UTILITY FUND
STATEMENTS OF NET ASSETS
December 31, 2008 and 2007

	2008	2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 1)	\$ 5,175,692	\$ 7,293,265
Accounts receivable:		
Receivable from energy distributors	5,644,587	4,094,452
Receivable from GMP for EEF monitoring & evaluation	<u>39,000</u>	<u>0</u>
Total Current Assets	<u>10,859,279</u>	<u>11,387,717</u>
 TOTAL ASSETS	 <u>\$ 10,859,279</u>	 <u>\$ 11,387,717</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Payable for energy programs	\$ 4,385,438	\$ 2,257,537
Payable to energy distributors for uncollectibles and overpayments	53,591	124,499
Accounts payable and accrued expenses	2,571,908	1,400,020
Taxes payable (Note 6)	<u>236,757</u>	<u>154,075</u>
TOTAL CURRENT LIABILITIES	<u>7,247,694</u>	<u>3,936,131</u>
Net Assets		
Restricted for unregulated fuels efficiency	559,433	0
Restricted for GMP EEF monitoring & evaluation	33,257	0
Unrestricted	<u>3,018,895</u>	<u>7,451,586</u>
TOTAL NET ASSETS	<u>3,611,585</u>	<u>7,451,586</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 10,859,279</u>	 <u>\$ 11,387,717</u>

See accompanying notes to financial statements.

VERMONT ENERGY EFFICIENCY UTILITY FUND
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS
Year Ended December 31, 2008 and 2007

	2008	2007
REVENUES:		
Assessments (Note 1)	\$ 30,613,772	\$ 22,681,802
Regional capacity market payment (Note 1)	1,237,174	247,000
GMP monitoring and evaluation payment (Note 1)	39,000	0
Interest income	94,469	129,792
Total Operating Revenues	<u>31,984,415</u>	<u>23,058,594</u>
EXPENSES:		
Energy programs (Note 3)	31,599,326	18,783,373
Regional capacity market expense (Note 1)	606,108	210,034
GMP monitoring and evaluation expense (Note 1)	5,743	0
Administrative costs (Note 2)	3,308,372	1,966,804
Taxes (Note 6)	304,866	226,916
Total Expenditures	<u>35,824,415</u>	<u>21,187,127</u>
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENDITURES	(3,840,000)	1,871,467
NET ASSETS - UNRESTRICTED, BEGINNING OF YEAR	7,451,586	5,580,118
Net Assets - Restricted, end of year	592,690	0
Net Assets - Unrestricted, end of year	3,018,895	7,451,586
TOTAL NET ASSETS, END OF YEAR	<u>\$ 3,611,586</u>	<u>\$ 7,451,585</u>

See accompanying notes to financial statements.

VERMONT ENERGY EFFICIENCY UTILITY FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from energy distributors	\$ 29,244,147	\$ 22,681,802
Receipts from Regional Capacity Market	1,237,174	247,000
Receipts from GMP for monitoring and evaluation	-	-
Payments for energy programs	(29,378,457)	(16,525,835)
Payments for Regional Capacity Market	(555,773)	(210,034)
Payments for GMP monitoring and evaluation	-	-
Refunds to energy distributors for uncollectibles and overpayments	(251,417)	148,762
Payments for general administration	(2,161,055)	(2,933,882)
Payments for EVT VSPC activities	11,434	-
Payments to contract administrator	(120,842)	(138,282)
Payments to fiscal agent	(15,070)	(15,000)
Payments for taxes	(222,183)	(213,586)
Net Cash Provided by Operating Activities	<u>(2,212,042)</u>	<u>3,040,945</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	<u>94,469</u>	<u>129,792</u>
NET INCREASE IN CASH AND EQUIVALENTS	<u>(2,117,573)</u>	<u>3,170,737</u>
Cash and Cash Equivalents:		
Beginning of Year	<u>7,293,265</u>	<u>4,122,528</u>
End of Year	<u><u>\$ 5,175,692</u></u>	<u><u>\$ 7,293,265</u></u>
Reconciliation of Increase (Decrease) in Net Assets to Net Cash		
Provided by Operating Activities		
Excess (deficiency) of revenues over expenditures	\$ (3,845,814)	\$ 1,877,283
Less: Interest Income	(94,469)	(129,792)
Change in Operating Assets and Liabilities:		
Receivables from energy distributors	(1,550,135)	107,726
GMP receivable for monitoring and evaluation	(39,000)	-
Payable for energy programs	2,220,868	393,739
Payable for regional capacity activity	50,335	-
Payable for GMP monitoring and evaluation	5,742	-
Payable to energy distributors for uncollectibles and overpayments	(70,908)	41,036
Payable for general administration	65,408	737,623
Payable for VEIC incentive	941,021	-
Payable for EVT VSPC activities	22,228	-
Taxes payable	82,682	13,330
Net Cash Provided by Operating Activities	<u><u>\$ (2,212,042)</u></u>	<u><u>\$ 3,040,945</u></u>

See accompanying notes to financial statements.

VERMONT ENERGY EFFICIENCY UTILITY FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies utilized by the Vermont Energy Efficiency Utility Fund (VEEUF), administered by Batchelder Associates, PC, in the preparation of the accompanying financial statements are summarized below.

Organization

In 1999, the State of Vermont established the VEEUF to fund ten core statewide electric energy efficiency programs. These programs include: commercial energy opportunities; commercial emerging markets; commercial and industrial customer credit; dairy farm program; multi-family and single family low-income programs; residential emerging markets; residential new construction; efficient products; and utility payments. In 2003, the programs were condensed into eight programs: business existing facilities; business new construction; customer credit; business initiatives; energy efficiency products; residential new construction; residential existing buildings; and residential initiatives. In January 2004, the Vermont Public Service Board established the Customer-Credit Program, Net-Pay option.

In December 2006 the Vermont Public Service Board authorized the VEEUF's participation in the regional capacity market; administrative costs began in 2006 and full program costs were incurred in 2007. The net assets from the regional capacity market are restricted by act of the Vermont Legislature for fossil fuel energy efficiency services to Vermont heating and process-fuel business or residential consumers.

Pursuant to 30 V.S.A. §209, the Vermont Public Service Board (VPSB) established a volumetric charge to customers, the Energy Efficiency Charge (EEC), for the support of energy efficiency programs. Currently, there are twenty (20) distribution utilities assessing these charges and utilizing the programs.

The VPSB entered into a contract with Batchelder Associates, PC to serve as the fiscal agent of the VEEUF for the period January 1, 2006 through December 31, 2008.

In March 2007 pursuant to Docket 7213 the VPSB set up an Energy Efficiency Fund (EEF) to invest in projects that deliver significant and incremental benefits to Green Mountain Power (GMP) ratepayers. Under this EEF, GMP is directed to invest \$7.4 million in existing business sector energy efficiency services and new residential programs within its service territory over a five-year period. In a related Board Order dated March, 3, 2008 GMP and the Vermont Department of Public Service (DPS) were required to set-up an Evaluation and Verification Plan for the EEF with an associated budget. The total evaluation budget was estimated to be \$351,000 with \$245,000 coming from the GMP EEF budget and the remaining \$106,000 to be funded from the EEU evaluation budget with the understanding that information gathered through the GMP EEU evaluation has significant relevance to statewide efficiency efforts. The net assets of the GMP EEF monitoring and evaluation funds are restricted for that purpose within the EEU.

VERMONT ENERGY EFFICIENCY UTILITY FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Organization (Continued)

Pursuant to the terms of Docket 5980, the VPSB set the original EEU budget for 2006, 2007, and 2008. Budgets were subsequently revised in a VPSB Order issued August 2, 2006. In response to the budget revision the 2006 EEC charge was revised in a VPSB memo dated August 15, 2006.

Special Reserve Fund

The VEEUF is considered a special reserve fund of the State of Vermont. The financial statements presented are not a reflection of the financial position or changes in financial position of the State of Vermont. Because the VEEUF is required by law to finance its activities with fees and charges rather than with taxes or similar revenue, the special reserve fund is presented as an enterprise fund.

Basis of Presentation

These statements have been prepared on the modified accrual basis in accordance with Governmental Accounting Standards Board (GASB), for the periods presented. The VEEUF's financial statement presentation follows the recommendation of GASB No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" and amendments. GASB No. 34 as amended establishes standards for financial reporting for state and local governments.

Cash and Cash Equivalents

All highly liquid securities, purchased with a maturity of three months or less, are considered cash equivalents. Interest is credited to the VEEUF when earned and the annual percentage yield earned .43% and 1.70 % during the years ended December 31, 2008 and 2007 respectively.

Revenue Recognition

Vermont electrical distribution utilities are required to assess their customers based on usage at a statutory rate. The assessments are then remitted to the VEEUF. It is the VEEUF's policy to recognize all self-assessments received within two months of the fiscal period. Any late remittances will be recognized in a subsequent period or periods.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

VERMONT ENERGY EFFICIENCY UTILITY FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Asset Designations

In accordance with National Council on Governmental Accounting Statement 1 (NCGAS 1) paragraph 120, contractual customer commitments and Department of Public Service funding set-asides for monitoring and evaluation of the VEEUF are disclosed as a designation of net assets in Note 8 of the financial statements. Designations represent financial resources available to finance expenditures which by their nature are tentative. Contractual customer commitments only result in payment after customers have made agreed upon improvements relating to energy efficiency. The actual amounts of such payments are not known in advance, but have been estimated as the balance of contractual commitments likely to be fulfilled. DPS monitoring and evaluation is budgeted for the three year contract period and prorated to designated net assets each year. Actual monitoring and evaluation expenses may differ from these funding set-asides.

NOTE 2 - ADMINISTRATIVE COSTS (In Thousands)

General costs incurred by the VEEUF relating to the energy programs as of December 31, 2008 and 2007, are as follows:

	<u>2008</u>	<u>2007</u>
General Administration	\$ 123	\$ 154
Information Technology	789	637
Monitoring and Evaluation	1,197	246
Contract Administration	123	138
Fiscal Agent	16	16
External Audit Fees	20	8
VSPC Participation Activities	11	1
EEU Advertising	6	8
EVT Docket 7081 Forecasting Activities	82	-
VEIC Incentive Plan	941	759
	<u>\$ 3,308</u>	<u>\$ 1,967</u>

Pursuant to the contract between the Vermont Public Service Board and the Vermont Energy Investment Corporation, the VPSB proposed a performance-based award program for VEIC based on achievement of certain performance benchmarks designed to promote energy efficiency in the State of Vermont. The performance measurements span a period of three years from 2006 to 2008 with a total award for the three-year period potentially amounting to \$2,347,000.

VEIC's achievement of contract performance benchmarks for 2006 through 2008 has been evaluated and the actual award of \$2,316,021 was approved for payment in 2009. The total performance incentive payable of \$2,316,021 is accrued as of December 31, 2008.

VERMONT ENERGY EFFICIENCY UTILITY FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007

NOTE 3 - DISTRIBUTIONS TO ENERGY PROGRAMS

Distributions to the Vermont Energy Investment Corporation (VEIC) and other qualified providers were made by Batchelder Associates, PC during the years ended December 31, 2008 and 2007, in accordance with the terms of their contracts or as directed by the contract administrator, with concurrence of the Vermont Public Service Board. The VEIC uses the disbursements to fund various programs.

Approximate amounts incurred by program (In Thousands) as of December 31, 2008 and 2007, are as follows:

	<u>2008</u>	<u>2007</u>
EVT (Efficiency Vermont):		
Business Existing Facilities	\$ 18,037	\$ 6,314
Business New Construction	1,805	2,315
Customer Credit	10	10
Customer Credit Net Pay Option	1,362	933
Energy Efficient Products	4,035	2,611
Residential New Construction	2,092	2,793
Residential Existing Buildings	2,779	2,780
	<u>30,120</u>	<u>17,756</u>
<u>BED (City of Burlington Electric Department):</u>		
Business Existing Facilities	466	403
Business New Construction	254	232
Residential New Construction	168	115
Residential Existing Buildings	318	183
Energy Efficient Products	273	94
	<u>1,479</u>	<u>1,027</u>
	<u>\$ 31,599</u>	<u>\$ 18,783</u>

NOTE 4 – FISCAL AGENT SERVICES CONTRACTS

Under the contract between the VPSB and Batchelder Associates, PC, the fiscal agents are reimbursed a fixed amount each fiscal year plus allowable variable expenditures, as defined. For the year ended December 31, 2008 Batchelder Associates, PC was reimbursed for fixed expenses of \$14,975 and variable expenses of \$1,558. The fiscal agent was paid \$15,000 for fixed expenses and \$1,273 for variable expenses during the year ending December 31, 2007. The financial audit was \$7,500 for the years ending December 31, 2008 and 2007.

VERMONT ENERGY EFFICIENCY UTILITY FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007

NOTE 5 - INCOME TAXES

These financial statements present the activities of the VEEUF. The activities of the VEEUF are tax-exempt since the VEEUF is a special reserve fund of the State of Vermont, and therefore not subject to federal or state income taxes. As such, no provision for taxes other than the gross receipts tax and weatherization tax has been reflected in the accompanying financial statements.

NOTE 6 - OTHER TAXES

One-half percent of assessments collected in 2008 and 2007 are payable to the home weatherization assistance trust fund. Home weatherization assistance trust fund disbursements are made quarterly. Also, one-half percent of assessments collected in 2008 and 2007 are payable to the gross receipts tax fund, which is paid annually.

As of December 31, 2008 and 2007, the following was payable to the tax funds (In Thousands):

	<u>2008</u>	<u>2007</u>
Home Weatherization Assistance Trust	\$ 64	\$ 20
Gross Receipts Tax	173	134
Total	<u>\$ 237</u>	<u>\$ 154</u>

Expenditures (In Thousands) related to the years ended December 31, 2008 and 2007, were:

	<u>2008</u>	<u>2007</u>
Home Weatherization Assistance Trust	\$ 152.5	\$ 113.5
Gross Receipts Tax	152.5	113.5
Total	<u>\$ 305</u>	<u>\$ 227</u>

NOTE 7 - INVESTMENTS

The Fund maintained its cash balances at Chittenden Bank under the control of the fiscal agent, Batchelder Associates, PC. Excess balances are "swept" into government securities on a daily basis under a repurchase agreement. The repurchase agreement is collateralized by a pool of Fannie Mae mortgage backed securities held by the Federal Reserve Bank of Boston for the Chittenden Bank. As of December 31, 2008, these securities provided a balance to market value of 84.5758%.

VERMONT ENERGY EFFICIENCY UTILITY FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007

NOTE 7 – INVESTMENTS (Continued)

Balances as of December 31, 2008 were as follows (book balance differs from bank balance for outstanding checks):

<u>Account Description</u>	<u>Per Bank</u>	<u>Per Books</u>
Business checking (FDIC insured)	\$ 5,643	\$ -
Repurchase agreement (collateralized, uninsured)	5,309,786	5,175,692
Totals	<u>\$ 5,315,429</u>	<u>\$ 5,175,692</u>

NOTE 8 – DESIGNATED NET ASSETS

As of December 31 the VEEUF unrestricted net asset balance had the following designations:

	<u>2008</u>	<u>2007</u>
Unrestricted Net Assets		
Designated for contractual customer commitments	\$ 749,486	\$ 633,304
Designated for DPS monitoring and evaluation	757,807	1,705,895
Undesignated	<u>1,511,602</u>	<u>5,112,387</u>
Total Unrestricted Net Assets	<u>\$3,018,895</u>	<u>\$7,451,586</u>

NOTE 9 – PRIOR PERIOD ADJUSTMENT

The 2007 Statement of Revenues, Expenditures, and Changes in Net Assets has been restated as follows. Advertising expense for 2007 has been increased by \$5,815 to account for 2007 expenses paid in 2008. Unrestricted net assets have been reduced accordingly as of December 31, 2007 to \$7,451,586. Beginning of year net assets have also been restated as \$7,451,586 on the 2008 Statement of Revenues, Expenditures, and Changes in Net Assets.

The \$5,815 increase in 2007 advertising expense has also been reflected in Note 2 – Administrative Costs (In Thousands) as a \$6,000 increase to EEU advertising expense.

Accounts payable and accrued expenses on the 2007 Statement of Net Assets has also been increased by \$5,815 with a corresponding decrease in unrestricted net assets to reflect the outstanding payables for EEU advertising as of December 31, 2007.